

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of:)	
)	
Modernizing the E-rate)	WC Docket No. 13-184
Program for Schools and Libraries)	
)	

COMMENTS BY KELLOGG & SOVEREIGN® CONSULTING, LLC

TABLE OF CONTENTS

I. INTRODUCTION 2

II. APPROPRIATE FUNDING LEVEL..... 3

III. RESULTS OF A SURVEY CONDUCTED OF KELLOGG & SOVEREIGN CONSULTING, LLC CLIENTS REGARDING THE IMPLEMENTATION OF A PER STUDENT BUDGET OR CAP 3

IV. MODIFYING THE DISCOUNT MATRIX..... 11

V. STREAMLING THE BUREAUCRATIC PROCESS..... 11

VI. DOCUMENT RETENTION REQUIREMENTS 12

VII. ELIGIBLE SERVICES REVISION 13

I. INTRODUCTION

Kellogg & Sovereign® Consulting, LLC(KSLLC) has been managing the E-Rate process for schools and libraries since the inception of the program in 1998 at the request of applicants. Our professional staff works with the E-Rate program on a daily basis managing over 300 clients with annual filing of approximately 650 applications. Accordingly, we have an in-depth knowledge of the program and are well versed in all areas of the E-Rate program. Our single focus on E-rate enables us to assist our clients to maximize their E-Rate funding while assuring that they stay within the rules established by the FCC as administered by the Schools & Libraries Division (SLD) of the Universal Administrative Company (USAC).

In September, 2013, KSLLC developed a survey which was distributed to our clients regarding how the various solutions proposed within the FCC's NPRM would affect them. A breakdown of our clients related to the Urban, Rural, Rural Remote and Student #'s are shown below:

Urban/Rural/Rural Remote	#	Student Population	
Urban	73	Less than 1,000	192
Rural	152	1000-5000	49
Rural Remote	75	5,000 - 10,000	34
Total Applicants	300	10,000-49,999	20
		50,000 - 99,999	3
		100,000-	2
		Total Applicants	300

The survey required that the school complete an "E-Rate 2.0 Ceiling Calculator" (See Exhibit A) to determine how various per student funding caps might affect their E-rate funding and related decisions in purchasing E-rate eligible products and services. Due to the short time frame allowed for the survey, we had 33 initial respondents. We have included the results of the initial survey results in these comments. The results of the survey reflect the comments we received from school districts as we discussed the FCC's proposed changes with our client schools during E-Rate training sessions in July, 2013. We will continue the survey over the next few weeks and will provide additional results in our reply comments. We have also submitted comments on recommendations for Appropriate Funding Levels, Modifying the Discount Matrix, Streamlining the Bureaucratic Process, Document Retention Requirements, Eligible Services Revision, and Barriers to Affordable Access.

II. APPROPRIATE FUNDING LEVEL

The digital age has brought significant challenges to the world of education and literacy that could not possibly have been imagined when the E-rate program began in 1998. In 2013, the need for affordable access to advanced telecommunications and information services is at the forefront of key provisions necessary to properly equip Americans for competing in a global economy.

In order to provide our citizens with the information they need to be successful, we cannot expect our children to reference textbooks written in 1998 and library patrons to search for information in their local library's printed card catalog from 15 years ago. Services and access must be continually updated on an accelerating basis. Consequently, the related costs to connect to resources and access to the world of information has significantly increased and become of utmost importance.

KSLLC has experienced first-hand the critical role that the E-Rate program has served in moving our schools and libraries forward into the digital age. We firmly believe that the program itself is not 'broken' it is just "broke" in that it needs an influx of funding along with modernization to more accurately reflect today's needs, and retention of key components of the program that have and continue to work very well.

The following are effective components of the E-rate program that we believe should be retained:

- Annual application process – provides opportunities funding each year
- Discount Matrix - provides preference to low income and rural areas in keeping with the goals of Universal Service
- Funded each year– as long as applications are properly filed, funding is provided
- Non-competitive - All eligible schools and libraries have the opportunity to apply and receive funding.

We agree with The International Society for Technology in Education (ISTE®)¹ that the E-Rate program needs to increase total funding to \$5 billion as a minimum with anticipated increases to the fund in future years.

Results of our survey as listed below show that even with implementing a per student cap, the funding needed by each school district to meet the needs of the Connect ED initiative² is significantly greater

¹ISTE. Help Increase E-rate Funding. (n.d.) Retrieved 8/29/2013 from <http://www.iste.org/about-iste/advocacy/e-rate>

² The White House. (2013, June 6). Retrieved 9/16/2013 from http://www.whitehouse.gov/sites/default/files/docs/connected_fact_sheet.pdf

than the current funding cap of \$ \$2,380,314,485.³ . Even with annual inflation-based increases to the fund, our survey shows that support needs to be approximately double the existing fund.

III. RESULTS OF SURVEY CONDUCTED BY KELLOGG & SOVEREIGN CONSULTING, LLC REGARDING THE IMPLEMENTATION OF A PER STUDENT BUDGET OR CAP

Since the majority of our client base is rural in nature, the results from the survey reflect the reality that this population is the one that is historically more expensive to serve.

As the goals of Universal Service recognized in 1996⁴, the costs of advanced telecommunications services in rural areas is generally greater than that costs for similar services in urban areas.

While many seem to believe that every segment of geography in the United States is now covered by high bandwidth circuits the reality is that there are many areas where our clients are located that still do not have access to these vital circuits. Even in Pontotoc County in Oklahoma where our offices are located, homes and school districts in the surrounding rural areas still lack broadband access just 5-10 miles out of town. The Ada Public School District, for example, has their buildings connected by a local cable provider who installed connections to the buildings several years ago with limited funding so if any section of the vertically linked connections goes down all of the buildings “down the line” go out of service. The district desperately needs funding for a dedicated wide area network with increased bandwidth. Their phone systems are still based on an obsolete PBX system and their computer workstations are a mix of donated and purchased equipment. The district is struggling to keep up with the digital age, manage the requirements of online testing, connectivity, and day to day operations.

If high bandwidth circuits are not already available to a rural school district or community library, the cost of access to high bandwidth service frequently means that the network must be built out incurring construction costs that are passed along to the entity which results in much higher costs than an equivalent district would incur in urban areas.

Consequently, the FCC must keep in mind in any new rule making that the rural population, whether rural or rural remote is the one segment that cannot be overlooked and is likely to be the most expensive to serve on a per pupil basis. However, these extra costs must be covered in any new rulings.

³Federal Communications Commission (2013, March 11) . Retrieved 8/29/2013 from <http://www.fcc.gov/document/e-rate-inflation-based-cap-funding-year-2013>

⁴ Federal Communications Commission (n.d.). Retrieved 9/15/2013 from http://transition.fcc.gov/wcb/tapd/universal_service/

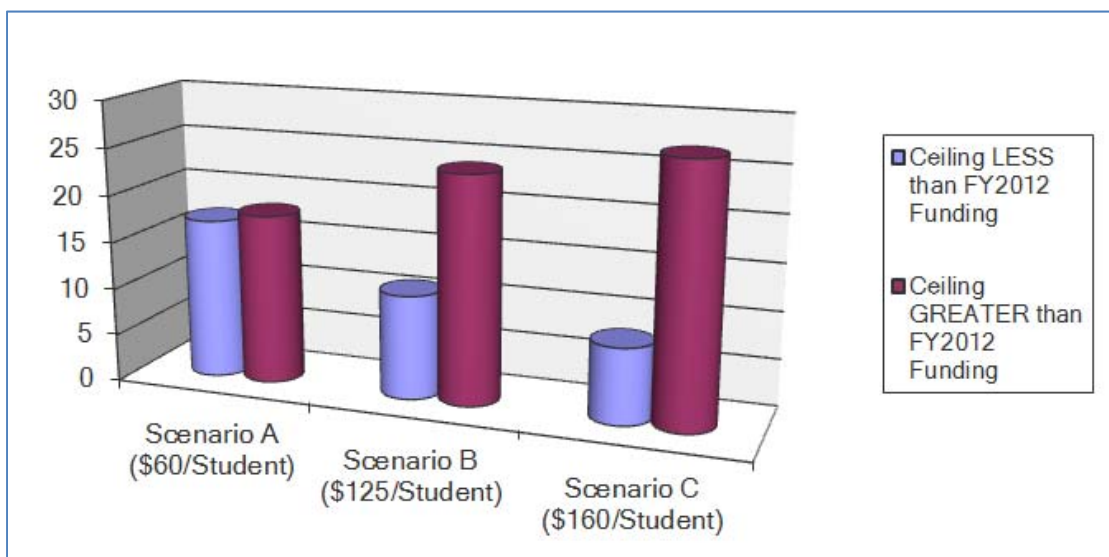
The survey conducted by KSLLC focused on the impact to the individual applicant if a per student cap were implemented, what services they would choose to implement with a restricted budget, which services they could do without, and which services they thought should be eliminated from funding.

Of the respondents to the survey, 25% were urban, 49% were rural, and 26% were rural remote. The majority of respondents had discount rates at 70%-90% with only 11% in the 40%-49% range. The range of school size ran from a low of 50 up to 19,999. The top funding amount received by 2.6% of the respondents was \$500,000-\$749,000 while 13.2% of respondents received the lowest amount which was \$15,000-\$24,999.

As discussed earlier, we provided an *E-rate 2 Ceiling Calculator (See Exhibit A)* with the survey using proposed per student caps of \$60, \$125, and \$160. We then asked respondents to enter the funding amount they received for FY 2012 and compare whether their ceiling would be the same, more, or less than the funding they received in FY2012. We also asked how they would choose to spend their budgeted E-rate funding.

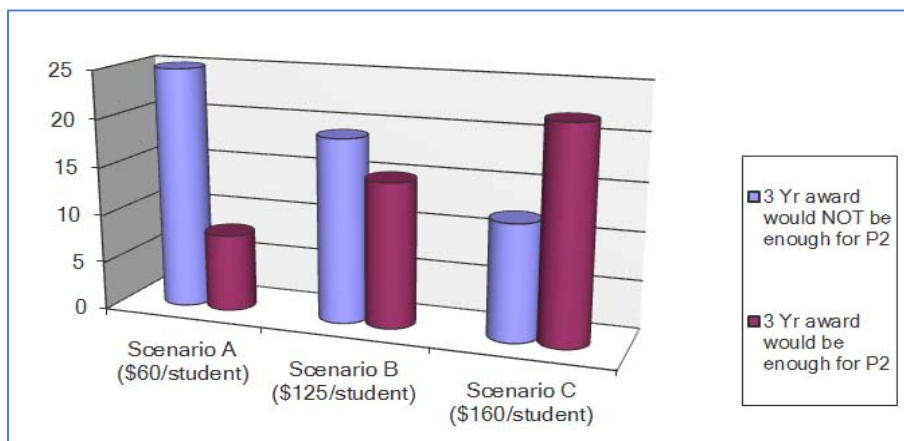
For the majority of respondents, in order to have enough funding to pay for Priority Two services (Internal Connections and Basic Maintenance of Internal Connections) after covering their Priority One (Telecommunications and Internet Access) needs, they would need at least \$160 per student plus, if rural they would require an additional \$36,000 base as proposed by several commenters and if they were a remote rural district, they would need double the remote base (\$72,000). In some cases, they would need more than this amount based on numbers of students attending the schools. See Table 1.

Table 1: Per Student Cap (Ceiling) as compared to funding issued from FY2012



Another question in the survey asked respondents if they could aggregate the amount they had “left over” after paying for Priority One services over a three year period, would they have sufficient funds to purchase the Priority Two services they would need to meet their needs. Most respondents needed \$160/per student plus the rural or rural remote base in order to have the needed funds to cover their costs for Priority 2 services. See Table 2.

Table 2: Would Per Student Cap be sufficient to meet Priority Two funds if aggregated over 3 years:



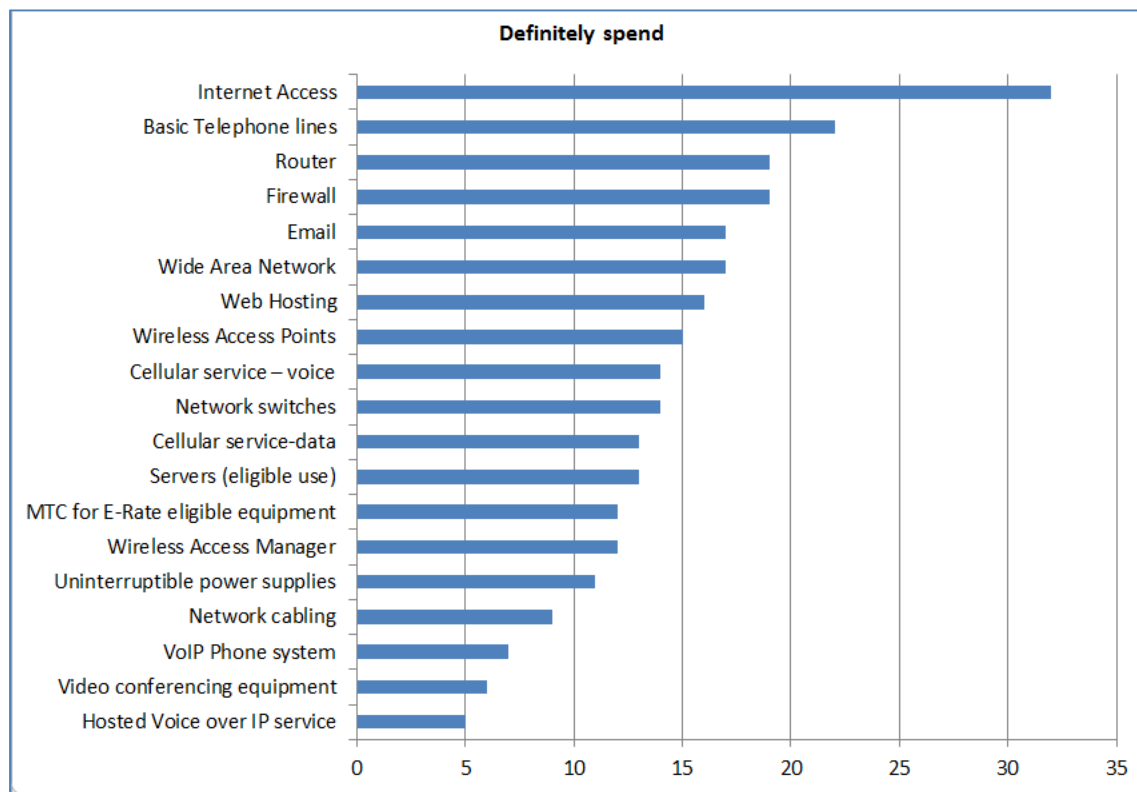
Not surprisingly, 37% of respondents were against a Per Student cap and of those that were in support, they would require the same bases, \$160 per student plus multi-year awards including the ability to roll over unused funds into the next year and potentially more support than that just to keep even with previous funding.

In light of the above results, and potentially less overall funding, the respondents were asked what services they would definitely purchase even with a limited allocation of E-rate funding. Table 3 below shows how they ranked their choices.

Basic Telephone lines ranked #2 in the overall list of services the schools would definitely spend their limited E-rate funding on. This is due to the lack of available high bandwidth circuits in rural areas that makes it impossible to adopt Voice Over IP service as a replacement for basic telephone service.

We recommend that the FCC should be careful to insure that all geographic areas of the nation do have high bandwidth access prior to removing support for basic telephone services

Table 3. Ranking of Eligible Services when per student funding cap is implemented.



Removal of Priority One – Priority Two

The results as shown in Table 3 above show that the applicant's priorities of what they need to meet the needs of digital literacy include both Priority One and Priority Two services. Support for routers and firewalls, for example, are listed above Web Hosting. Support for Wireless Access Points is listed above cellular services.

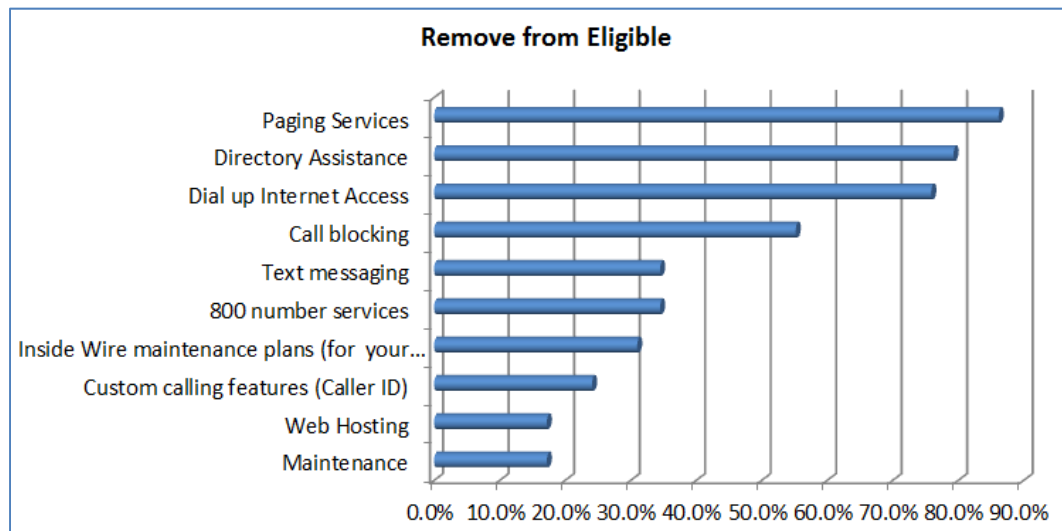
As technologies have converged, the separation between Priority One services and Priority Two services has also blurred. For example, Voice Over IP services that didn't even exist in 1998 have evolved from equipment only based systems to hosted systems that qualify for Priority One service. Additionally, with the loss of Priority Two funding, service providers are seeking ways to move their products and services to Priority One categories which blurs the lines even further.

If a per-student funding cap is implemented and schools and libraries are given the ability to make their own choices on how to spend their limited E-rate funding, we believe applicants will select the most cost-effective solution instead of simply the solution that has Priority One status.

Services to Remove from the Eligible Services List

Survey respondents were given the opportunity to recommend the services that they believed should be completely removed by the FCC from funding support. Table 4 below shows the survey results for what services could be removed from the Eligible Services List. The majority of respondents wanted to include E-rate funding support for Web Hosting and Maintenance but were supportive of removing outdated services such as paging, directory assistance, and dial-up Internet Access.

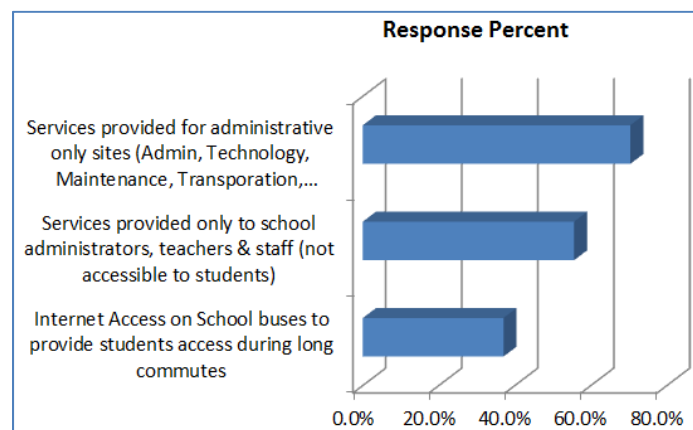
Table 4. Services that can be removed from the Eligible Services List:



Eligible Locations

Respondents strongly supported continuing to provide services to non-instructional facilities, school staff members and school buses. See Table 5 below:

Table 5. Support for Services for Non-instructional locations.

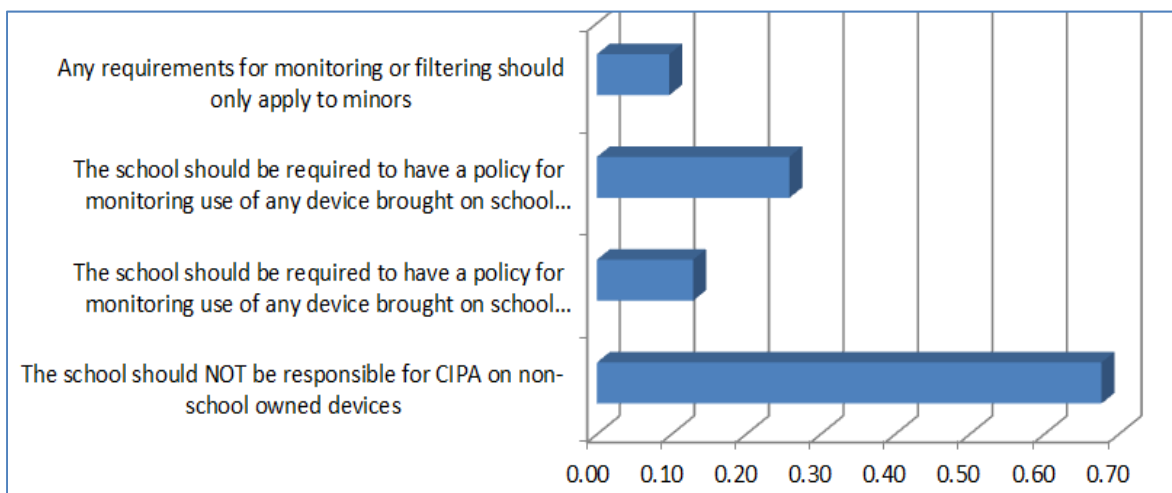


Applicants located in rural and rural remote areas were very supportive of E-Rate funding for Internet Access on school buses. It is not uncommon in rural areas for students to spend up to three hours per day riding on school buses. If Internet Access can be supported by E-Rate funding, schools will have the ability to provide access to their students which in turn will provide their students with ability to work on homework assignments during their long commutes.

CIPA Requirements

The survey included questions posed in the NPRM regarding CIPA requirements. As can be seen on the Table 6 below, overwhelmingly, the respondents did not think it would be feasible for them to have responsibility for CIPA on non-school owned devices.

Table 6. CIPA Requirements.

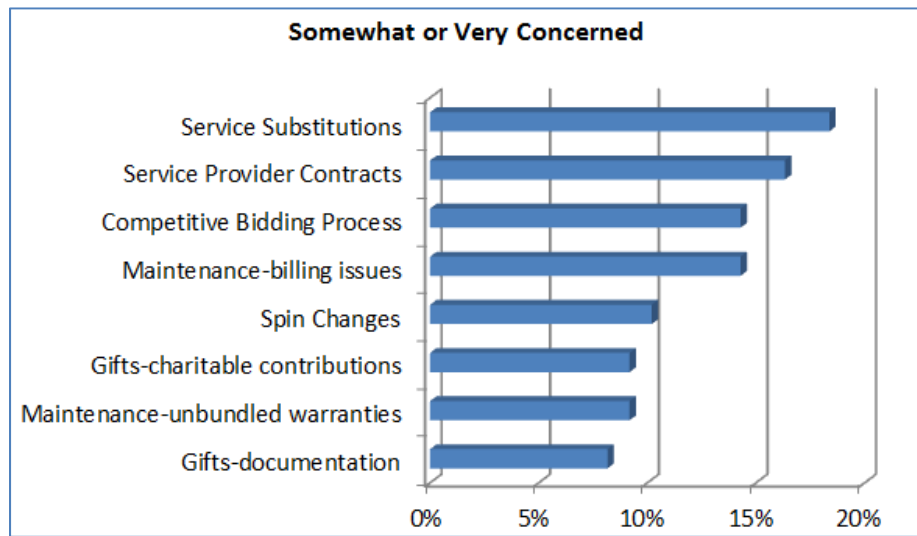


In cases where students take school owned equipment home the districts were strongly opposed to having responsibility for CIPA monitoring for off campus use of school owned hardware. One comment was, "I can't imagine having to go to a student's home to audit whether the school owned equipment was accessing inappropriate sites at home."

Areas of Concern – Compliance Issues

Compliance with the myriad rules and regulations associated with the application and implementation processes is a very real concern to applicants. All applicants go through the PIA process and many also go through some type of Selective Review or Audit. Applicants were given the opportunity to express what areas they are most worried about regarding proper procedures (compliance). Table 7 provides the ranking of importance associated with each choice.

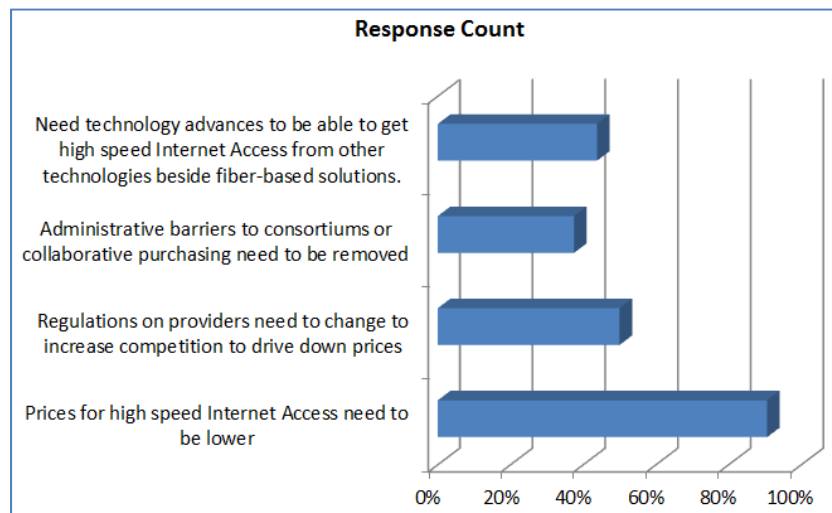
Table 7. Areas of Concern regarding Compliance.



Barriers to Meeting Goals of Digital Literacy

When asked about what changes from the list provided would need to be made in order for the applicant to meet the digital literacy goals for their school or library, respondents indicated that the highest need was for high speed Internet Access to be lower as shown in Table 8.

Table 8. Barriers to Affordable Access



Survey Summary:

We believe that the survey results clearly reflects the needs of the population represented. Additionally, while we have very little input from the large urban districts in the survey, the views of the respondents mirrored the verbal comments we received from the urban districts during our summer training workshops.

IV. MODIFYING THE DISCOUNT MATRIX

We believe that the determination of the discount rate for a school district as it exists today is a fair way of determining need. It gives USAC the opportunity to fund districts in increments in between various levels as they exist now. Example, many of the applicants we work with have discounts of 90%, 89%, 88%, 87%, 86%, 85% and so forth.

With just one rate for the entire district using today's discount matrix the bands are separated by 10% and those districts that fall in between discount bands, 90%, 80%, etc. might not receive any funding at all. The only way the 'one' discount rate for an entire district would be as effective as the existing method would be if the Discount Matrix is changed to include additional bands - incremental discounts between bands.

V. STREAMLING THE BUREAUCRATIC PROCESS

We concur with the comments made by E-MPA in, paragraph 235. of ***Comments of the E-Rate Management Professionals Association, Inc.***

E-MPA™ Comment/Recommendation

E-mpa™ has provided below a number of suggestions to streamline the Program Integrity Assurance (PIA) review process. In addition, there are a number of significant streamlining suggestions regarding multi-year contracts in our response to paragraphs 239 through 246.

- 1. Establish criteria to waive Final Review and/or Quality Assurance Reviews.*
 - a. Final review criteria might only be required for:*
 - Priority 1 applications for a Billed Entity (BEN) with total funding requests above a specified level.*
 - All funding requests with new contracts.*
 - b. Quality Assurance Reviews might be required for applications initially reviewed by reviewers who are new, relatively inexperienced, or showing sub-par performance.*
- 2. Eliminate review of funding requests (FRNs) which, in the prior funding year, were from the same BEN, the same Service Provider (SPIN), and for nearly the same pre-discount cost (perhaps within 5%). This provision might be repeated for only two successive years, with the FRN being reviewed again every third year.*

3. *For Priority 1 FRNs that can be otherwise be approved on threshold, allow reviewers to ignore certain information that may be included with Item 21 Attachments:*
 - a. *For MTM or Tariff FRNs, ignore any attachments such as invoices or bid documents.*
 - b. *For contracted FRNs, only verify Contract Award Date (CAD) and Contract Expiration Date (CED).*
4. *For Item 21 Attachments, provide a standardized format (e.g.: comma separated value - .csv) for applicants to upload Item 21 information to USAC. This would greatly enhance the current on-line Item 21 Attachment data which has already improved PIA review throughput. This might have the added advantage of providing better granularity of "Below the Bucket" usage data to the FCC.*
5. *Modify the Services Matrix (currently used solely by SLD staff) to provide limited access for applicants and service providers. We are advised that certain information on the Services Matrix is considered confidential by service providers; these fields should be made unavailable to applicants. Applicants would have access only to part number, product name and description, and eligible/ineligible cost allocations. Applicant and service providers usage of this tool will:*
 - a. *Expedite preparation equipment lists for Priority 2 FRNs that reflect consistent nomenclature and accurate eligible cost allocations.*
 - b. *Allow USAC to create an Item 21 Attachment interface that will allow applicants to input accurately allocated equipment lists with nomenclature consistent with E-rate data bases. Input fields for number of units and unit costs will allow for system calculation of costs and allocation of ineligible costs on-line. This will greatly speed up review of Priority 2 FRNs by eliminating a lengthy, time-consuming task.*
6. *Overhaul existing tools used by PIA reviewers that are flawed and inefficient. For example:*
 - a. *Upgrading to one fully integrated database system.*
 - b. *Implementing software changes to increase reliability and responsiveness of data inquiries.*
 - c. *Investing in technology for PIA reviewers to increase efficiency.*
7. *Make information and links for all State Master Contracts bid through Form 470s available to reviewers and applicants. Implementation of this would likely require assistance of state E-rate coordinators.*
8. *Make school/district discount data for all states readily available to PIA reviewers.*

VI. DOCUMENT RETENTION REQUIREMENTS

We concur with the comments made by San Diego County Board of Education comments, Section 7, page 4 as follows:

"The current five year document retention requirement of E-rate related documents is adequate to preserve the integrity of the E-rate program...USAC should be the electronic document repository for all required documentation that may be needed to audit an applicant. The USAC already has records of all forms filed, attachments received, e-mail and

telephonic records of communications between USAC and applicants, commitments and decisions made with respect to the applications and similar records relating to service providers. USAC should insure that during the PIA (Program Integrity Assurance) process, all required audit documentation is received from the applicant initially, and that PIA decisions are determinations- of fact to prevent applicants from facing recovery on a funding commitment that an auditor later found that was improperly approved by the PIA.”

We recommend that the FCC stay with the current “five year” document retention rule. We understand that there are statutes that require the FCC to collect any funding that is incorrectly disbursed. However, we strongly encourage the FCC to implement a reasonable statute of limitations that would prevent the program from having to collect disbursed funds years after funding has been approved and spent. For example, we currently have a request for Recovery of Improperly Disbursed Funds for a consortium filing from 2004. The RIDF is related to collection of Forms 479 even though all of the consortium members properly reported compliance with CIPA on their individual Forms 486 and were fully in compliance with CIPA as demonstrated to the auditors in 2004. The “hassle factor” that the commitment adjustments and recovery of funds years after a year is closed creates undue hardship on the applicants as well as creates a sense of fear and trepidation for those who choose to participate in the E-Rate program.

Once a district is funded, it should remain funded unless fraud /criminal intent is proven.

VII. ELIGIBLE SERVICES REVISION

We believe that the eligible services list is comprehensive as it exists at this point. We concur with the recommendation to combine Telecommunications and Internet Access into one category.

We would also recommend that the Priority designation be eliminated to enable applicants to make decisions which of the services they need in each funding year. This will provide an equitable access to telecommunications and Internet Access services along with the necessary hardware and services to actually make full use of the telecommunications and Internet Access services they are receiving.

CONCLUSION

We appreciate the opportunity to submit comments to the Commission and sincerely appreciate the time that is devoted by Commission staff to the review and careful consideration of all comments submitted.

Respectfully Submitted by:



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EXHIBIT A: E-Rate 2 Ceiling Calculator

Name: Felt Public Schools

Enter:	City	Felt
Enter:	State	OK
Yes or No	Urban	No
Yes or No	Rural	No
Yes or No	Rural Remote	Yes
Enter	# Students	83
Enter	Discount Rate	78%
Enter	2012 funding	\$35,412

Rural Base \$36,000
 Remote
 Factor 2

Scenarios:		A	B	C
Student \$	\$	60	\$ 125	160
Rural Base	\$	-	\$ -	\$ -
Rural Remote	\$	72,000	\$ 72,000	\$ 72,000
Ceiling	\$	76,980	\$ 82,375	\$ 85,280
Annual Cap:	Times Disct Rate	\$ 60,044	\$ 64,253	\$ 66,518
	Diff from 2012	\$ 24,633	\$ 28,841	\$ 31,107

See also:

www.kelloggllc.com/docs/fcc/erate2_ceiling_calculator.xlsx